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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

| PERIODIC REPORTING (PROPOSAL THIRTEEN) | Docket No. RM2015-7 |
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**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO UPS PLEADING REGARDING COMMISSION ORDER NO. 2792**
(March 11, 2016)

On October 29, 2015, the Commission issued Order No. 2792 in this proceeding. Among other things, that Order directed the Postal Service to file a report addressing certain matters. The Postal Service submitted the requested report on February 16, 2016. On March 4, 2016, UPS filed a document styled as a reply to the Postal Service's response to Order No. 2792 (along with a motion for leave to file). The exact nature of the March 4th pleading by UPS is unclear, however, because in addition to offering comments on the report the Postal Service filed on February 16, UPS also appeared to seek affirmative relief – telling the Commission that it "should" instruct the Postal Service to do certain specified things that UPS wants.[1] Because the UPS pleading is rife with misstatements and inaccuracies, the Postal Service is compelled to respond.

[1] To the extent that the UPS pleading is seeking relief, it would appear that the Postal Service is entitled to respond under Commission Rule 21. To the extent that is deemed not to be the case, the Postal Service hereby requests leave to respond on the grounds that many of the arguments and assertions made by UPS in its pleading are not based on a correct and practical understanding of either the operational data sources it discusses, or the analysis data set necessary to conduct further costing research. Consequently, to allow the Commission to evaluate properly both the Postal Service's response to Order No. 2792 and the UPS reply, the Commission should consider this response.

The entire UPS pleading is premised on a distortion of the Postal Service's actual response to Order No. 2792. UPS erroneously summarizes the Postal Service response as follows:

> The Postal Service's response to these directives principally offers reasons why the Postal Service purportedly cannot collect parcel and collection mail volume data capable of supporting a single model, instead of identifying ways that its data collection practices can be improved.

UPS Reply at 2. What the Postal Service actually stated was the exact opposite of what UPS is now alleging:

> In sum, the Postal Service is planning to aggressively investigate the possibility of using operational data to obtain accurate daily estimates for three of the data elements (in-receptacle parcels, deviation parcels, and accountable mail) and to use a proxy for the fourth data element (collection mail) identified by the Commission.

Postal Service Response to Order No. 2792 at 15. This fundamental distortion sets the tone for the entire pleading. A more detailed review of the UPS pleading reveals the many flaws in the arguments and claims presented.

## Introduction

In Order No. 2792, the Commission accepted the Postal Service's new model of city carrier street time and incorporated the model structure and estimated variabilities into the established methodologies:

> The Commission approves Proposal Thirteen which, for the reasons described in this Order, improves the quality, accuracy, and completeness of city carrier street time cost attribution.

Order No. 2792 at 66.

As is often the case, the Commission also directed the Postal Service to continue to pursue its research and specifically directed the Postal Service to investigate the possibility of accurately estimating a single-equation model of street time:

> [T]he Commission directs the Postal Service to collect the information needed to determine whether a single model could produce improved estimates of variability. Even if the unified approach ultimately should prove unworkable, recording reliable daily volumes of collection mail and delivered parcel and accountable pieces would allow for more frequent updates of street time variability using much larger data sets while reducing or eliminating the need for expensive and time-consuming special data collection studies.

*Id.* at 65 (Emphasis added).

Finally, the Commission directed the Postal Service to investigate its operational data systems to see if it is now possible to collect parcel and accountable volume data from those systems and to investigate the possibility of modifying those systems to produce collection volumes.

> The Commission directs the Postal Service to file a report describing the steps that would need to be taken to collect each of the volume measures that necessitated special studies in this case (*i.e.*, for each ZIP Code-day: in-receptacle parcels, deviation parcels, accountable mail, and collection mail). It shall also include an estimate of the costs and time needed to implement these changes.

*Id.* at 66.

In response to these directives, the Postal Service undertook a good faith effort to investigate existing operational data systems to collect the necessary data. Contrary to what UPS implies, the Postal Service shares the Commission's desire to avoid special studies and to use ongoing data systems to estimate the models needed to compute product costs. Indeed, the Postal Service is fully aware of the costs and the disruption to

work routines that result from field studies, and the consequent infrequency of updates thereof, and for those reasons initiated the approach of using operational data with its proposals to use MODS data to analyze mail processing costs, TCSS data to analyze purchased highway transportation costs, and DOIS and Route Evaluation data to analyze city carrier street time costs.

On February 16, the Postal Service filed the required report with the Commission, indicating that it was undertaking the research identified by the Commission:

> As previously discussed, the Postal Service has seriously begun investigating different methods for gathering each of the data elements requested by the Commission. The Postal Service's investigation into the Commission's directive has two distinct phases. The first phase is exploring if the data can be practically gathered and if they are sufficiently reliable and accurate to be used for regulatory costing purposes. The second phase is to determine whether the obtained data could be used to construct a single-equation model of street time.

Postal Service Response at 13.

On March 4, 2016, UPS filed a "reply" to the Postal Service report which attempts to distort what the Postal Service said in its response, and further attempts to push UPS's naïve, uninformed research agenda to the fore. Contrary to UPS's claim on page 2, the Postal Service did not focus on offering "reasons why the Postal Service purportedly cannot collect parcel and collection mail volume data capable of supporting a single model." The response filed by the Postal Service clearly indicates that it is actively pursuing methods for collecting the required data from operational data systems. However, as the Commission knows from its analysis of MODS data, not all Postal Service operating data systems are error-free and immediately ready for use in cost models. It is prudent to first investigate the quality of operational data before using such

data to estimate econometric equations. Data systems need to be thoroughly vetted before they are used in cost models, as only in the course of such investigation are possible shortcomings identified. Also, the Postal Service is often required to respond quickly to Commission inquiries about data systems or data elements. Thus, before a data system is used, it needs to be thoroughly reviewed and understood.

## UPS MAKES A SERIES OF MISTAKES AND PROFFERS A SET OF ERRONEOUS CLAIMS IN ITS "REPLY."

In its reply, UPS makes a number of erroneous statements that reveal its inexperience in working with postal operational data systems and demonstrate that it is not actually making constructive suggestions. Each of those statements is presented below, along with an explanation of the inherent fallacy.

### 1. Without analysis, UPS claims that the PTR data are immediately available and ready to be used for costing purposes.

On page 5 of its reply, UPS presents two examples from PTR that purportedly illustrate that the Postal Service already has the operational data to disaggregate parcel deliveries into the two categories of in-receptacle and deviation. UPS states:

> If such data is good enough for the Postal Service's customers, and sufficient to demonstrate compliance with contractual obligations, it should be good enough to use in costing models.

This naïve statement makes a leap from consideration of just two PTR outputs to the assumption that all aspects of the data system are reliable and ready to be used in cost models. It ignores all issues associated with constructing an analysis data set, like whether the data were assigned to the correct route and/or ZIP code, whether the correct mail product was recorded, or whether the correct location was recorded. If customers

successfully receive their packages, they are unlikely to verify or challenge that it was delivered at the location identified by PTR; the customer is unlikely to care that the PTR data indicates that the package was "Delivered in/At Mailbox" when the package was actually "Left at Door". In fact, one might argue that if the package was delivered in a timely manner, neither the customer nor the mailer need check the Tracking website to verify that the package was delivered at all, much less where. But such potential errors would be critical for estimating a street time equation. Moreover, it is not as simple as UPS suggests to determine whether a package is a deviation or in-receptacle delivery. Currently, a parcel is categorized as a deviation parcel if it does not fit in a customer's mail receptacle. However, the second example cited by UPS states that the package was delivered in/at mailbox which, using the current definition, could be either an in-receptacle parcel or deviation parcel (as an example, consider a delivery point with the mailbox attached to the front of the house). Issues such as these can likely be resolved, but they first need to be carefully considered before hastily adopting information from PTR.

Without demeaning the hardworking letter carriers, as explained in the Response to Order 2792, the deployment of the new scanners and the introduction of the protocol of indicating the location of the delivery is very recent. Carriers may not have incentive to ensure that they accurately describe the delivery location with the same diligence that they indicate that the piece was, indeed, delivered. Common sense suggests the utility of allowing them more time to adjust to the new regime, and of meanwhile attempting to check whether the data elements of interest bear the hallmarks of reliable information.

**2. UPS claims the Postal Service does not need to download a large number of individual observations just to produce an analysis data set.**

UPS takes issue with the claim by the Postal Service as to the computation of the number of observations that would have to be downloaded from PTR for each day to be included in the analysis data set. (The 6.2 million records quoted equals the average of 44 parcels/accountables delivered daily per route, multiplied by the 140,000 city letter routes.) For example, UPS states on page 6:

> The Postal Service does not need to analyze detailed records for every barcode in order to use daily operational data in a single model – it would only need at most, three count variables for each of its 140,000 city letter routes.

It further states in footnote 3 on that page:

> The unified model (and indeed the current Proposal Thirteen model) relies only on ZIP Code level count data. There is no reason why detailed data for each package, including time and location data for the many times each parcel is scanned between origin and destination, are necessary for the purposes of the approach proposed by UPS.

Apparently UPS thinks that route level and ZIP Code level data simply spring into existence without having to be aggregated from individual observations. This is a false assumption. PTR records data for each individual package. To obtain the number of packages on a route or in a ZIP Code, one has no other choice than to aggregate the individual observations from all of the city letter routes within a ZIP Code. Proposal Thirteen addresses the treatment of city carrier costs on letter routes. Many ZIP Codes contain both city and rural carrier routes, so the data have to be aggregated at the route level to ensure accurate counts of city carrier volume at the ZIP level. Another type of

incoming volume that would need to be excluded would be volume collected by carriers conducting SPR activities. UPS's claims are uninformed and without merit.

### 3. UPS does not understand the collection volume mail stream and its resulting suggestions provide no solutions.

UPS also takes issue with the factual difficulties raised by the Postal Service in its effort to obtain the volumes collected from customers' receptacles on city carrier letter routes. For example, UPS on page 7 argues that the Postal Service could measure linear feet of collection mail at mail processing centers instead of delivery units:

> For example, one could measure the weight or linear feet of collection mail by route at the processing center before it is pooled on those days when collection volume data is measured. While that approach would not provide exact counts, it could provide reasonable estimates; indeed linear measurements were used to approximate collection volumes in the collection mail study carried out for this docket.

But UPS provides no evidence or analysis of why it would be cheaper for the Postal Service to count linear feet of collection mail at mail processing centers rather than to do the same thing, as the Postal Service proposed, at delivery units. In fact, the need to keep mail separate by ZIP Code prior to counting could make UPS's suggestion more expensive.

Also, UPS argues that the Postal Service could alternatively count the required collection mail after it went through automated processing:

> In addition, the necessity of obtaining collection volume prior to automated processing is far from clear. Implementing the model proposed by UPS does not require volume counts at the carrier route level. All that are required are counts at the ZIP Code level.

In making this suggestion, UPS reveals that it does not understand what the definition of the collection volume variable is in the letter route street-time equation. It is actually just the collection volumes obtained from customer receptacles on city letter routes. It does not include collection volume from collection points which are usually handled by carriers in LDC 27. Measuring the mail after automated processing would preclude the Postal Service from measuring the right variable, because the two collection mail streams are merged at that point. Moreover, not only are the two mail streams merged after processing, all the ZIP codes that a plant does process are merged together and separated by destination ZIP code. It would be nearly impossible to isolate all the collection mail from any particular origin ZIP code. In addition, many ZIP Codes contain both city and rural routes, so measures of collection volumes by ZIP Code taken at mail processing plants would not accurately reflect the volume of collection mail from city carriers on letter routes.

The assertion that the count of mail after processing could be used as the collection mail volume demonstrates apparent lack of familiarity with the 010 operation. At least two types of mail potentially picked up by carriers on their routes would not show up in such machine counts. The first type is collection mail pieces that are incompatible with the specifications of the letter-sorting equipment and are culled out before they proceed to the automation equipment. The second type is so-called Bulk Meter Mail (BMM) that generally consists of trayed, faced, metered letters with machine-printed addresses. These trays of mail, considered collection mail if picked up by carriers on their routes, bypassed the culling operation and the facing operation, and are thus excluded from the machine counts that UPS so blithely suggests could be used

to count the collection mail. The only way to gain a true estimate of the mail that would not be included in the machine counts would be to conduct field studies of the very type UPS is trying to avoid by suggesting reliance on machine counts.

These errors show that UPS lacks sufficient understanding to make cogent suggestions on the topics it has attempted to address, and consequently has understated the difficulty in obtain the correct data.

**4. UPS likewise has no basis for determining how difficult it would be to merge PTR and TACS data, and it understates the true difficulty.**

Without any analysis of the process, UPS blithely claims on page 10 that it should be easy to merge PTR volumes with TACS hours because the PTR system is relatively new:

> It is not clear why such complications exist, considering the PTR system just came online within the past few years. The PTR system should have been designed with data collection in mind and set up to generate data compatible with TACS and other operational databases of the Postal Service.

Regardless of what UPS thinks "should" have been done in designing the PTR system, the actual reality is the Postal Service operational data systems are designed for specific *operational* purposes, and they are often not designed to facilitate costing exercises. As a result, there are often material challenges in synchronizing data from different operational systems.

UPS may have great latitude in establishing the standard of accuracy in investigation of its internal data sets and sources, being a nonregulated entity, but the Postal Service must meet the standards set by its regulator, the Postal Regulatory Commission. These standards are something which the Postal Service takes very

seriously and attempts to satisfy, so a thorough investigation into the accuracy, reliability, and comprehensiveness of the data is required.

The PTR system currently contains 485 different tables of data, with each table containing anywhere from 5 to 200 different variables. UPS fails to recognize that, for each mail piece that enters the postal system, many different mail piece characteristics are collected and recorded in these tables. The recording of some characteristics is automated in nature, while for others, it is manual. Pieces being rerun, multiple barcodes, system stops, and outages are all examples of errors that can occur in the creation of the PTR database, causing disruption to the data.

There are also other matching problems UPS does not address. Often these issues are experienced where pivots occur on routes (i.e., when multiple carriers deliver the mail for parts of a route for which there is not a regular carrier, either for a short time such as a vacation, or for a longer time), when a parcel route is created, or if the assigned carrier to that route has a different route number, ZIP Code, or finance number (e.g., the regular carrier is on leave). All of these occurrences can result in making a match difficult. There are also administrative issues related to privacy concerns and security with matching sensitive employee information between PTR and TACS. At the same time, there may be challenges in uniquely identifying each delivered piece in PTR. Other potential difficulties are associated with tracking the records for returned mail pieces. Returned mail pieces may have multiple delivery events for a single barcode, and determining the correct treatment of these pieces can be complex.

In sum, matching data from TACS and PTR is not the simple exercise that UPS imagines. Care must be taken to ensure the correct variables are extracted, and there

are real, not imagined, challenges in accurately matching observations from the two different data systems. Nonetheless, the Postal Service is continuing to work diligently to overcome these challenges in hopes of producing an analysis data set of sufficient quantity and quality.

**5. UPS now apparently espouses a new philosophy that the Postal Service should conduct "simple" field studies.**

In its report, the Postal Service indicated that it is currently pursuing both an operational data approach and a field study approach to updating the cost model for Special Purpose Routes. In part because of the vitriolic criticism of field studies raised by UPS, the Postal Service is carefully investigating whether or not a field study can produce data which is acceptable for analysis. Yet, UPS on page 10 now appears to suggest a new approach in which simple field studies are acceptable:

> Regarding the feasibility of "special studies" approach for Special Purpose Routes, the Postal Service wants to undertake "more investigation" to see whether this costly endeavor will yield data of the quality and magnitude required by the Commission." Once again the Postal Service appears to raise burden concerns without considering simplifying assumptions or alternative approaches that could generate meaningful progress.

The Postal Service admits to being a bit surprised by this complaint, given the views regarding field studies expressed by UPS to date. Does UPS now agree that field study data do not have to "yield data of the quality and quantity required by the Commission"? Also, the Postal Service wonders how UPS would or would not know whether or not it considered "simplifying assumptions." Finally, contrary to UPS's claim, the Postal Service is considering an alternative approach -- using operational data, and so stated in its report. UPS has raised nothing of value with this empty complaint.

**6. UPS assumes a complexity for the "model" for Sunday delivery that does not exist.**

UPS complains on page 11 that, in its report, the Postal Service does not provide sufficient detail about its model for Sunday delivery costs:

> In this latest filing, the Postal Service only provides a short statement that it is already using "actual operational time and volume information" in its cost models for Sunday delivery, which says nothing about how the data is collected, how often it is collected or the model that is being used.

The Postal Service's response was relatively short because the "model" for Sunday delivery costs is very simple. The Postal Service has a record of the actual costs incurred for Sunday delivery, and simply assigns all of those costs to the packages being delivered on Sunday. There is no model, in the usual sense of a set of econometric or engineering equations or proportions that are used to determine cost pools, variabilities or distribution keys. In the case of Sunday delivery, the Postal Service is doing exactly what UPS claims it wants done: using operational data to directly assign all costs to products. The Postal Service is unaware of what additional information about the "model" it could provide.

## CONCLUSION

In its "reply," UPS raises a series of empty concerns about the approach that the Postal Service is taking to fulfill its responsibilities to pursue additional research into possible improvements in determining city carrier street time costs. The Postal Service has investigated, and will continue to investigate, the issues raised by the Commission and addressed in its report. None of UPS's "suggestions" will improve, facilitate, or

speed up that process. Rather, pursuing them will only lead to inferior analysis data, wasted resources, and delays in completion of the required tests.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 277-6333
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